

Northeast Ottawa District Library
Ottawa County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

June 30, 2008

Northeast Ottawa District Library

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Brief Discussion of the Basic Financial Statements

This report consists of three parts -- *management's discussion and analysis (this section)*, *the basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- The first four columns of the financial statements includes information on the Library's General Fund, Capital Projects Fund, the Permanent Fund and the totals of the three funds under the modified accrual method of accounting. These financial statements focus on current resources and provide a detailed view about the Library's sources and uses of funds.
- The "Adjustments" column of the financial statements represents adjustments necessary to convert the modified accrual statements to the government-wide financial statements under the full accrual method of accounting.
- The last column provides both long-term and short-term information about the Library's overall financial status. The "Statement of Net Assets" and the "Statement of Activities" provide information about the activities of the Library as a whole and present a longer term view of the Library's finances.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

A. Statement of Net Assets

The Statement of Net Assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the Library is improving or deteriorating. As of June 30, 2008, current assets totaled \$358,816 and consisted of cash, receivables and prepaid expenses. Current assets increased by \$56,308 due primarily to an increase in net assets. Capital assets of \$475,479 include the Library's collection of materials, land, building and furniture, fixtures and equipment less accumulated depreciation.

Condensed Statement of Net Assets

| | 2008 | 2007 |
|----------------------------|------------|------------|
| Current assets | \$ 358,816 | \$ 302,508 |
| Capital assets, net | 475,479 | 484,586 |
| Total assets | 834,295 | 787,094 |
| Current liabilities | 16,795 | 19,754 |
| Net assets | | |
| Invested in capital assets | 475,479 | 484,586 |
| Restricted | 10,946 | 10,023 |
| Unrestricted | 331,075 | 272,731 |
| Total net assets | \$ 817,500 | \$ 767,340 |

B. Statement of Activities

The information that follows reports key financial information. Amounts and totals reported are for all Library activities, including general operations, gifts received, and net assets, in order to give a complete picture.

Condensed Statement of Activities

| | 2008 | 2007 |
|-----------------------------------|------------|------------|
| General revenues | | |
| Property taxes | \$ 223,400 | \$ 212,584 |
| Intergovernmental revenues | | |
| Federal | 748 | 608 |
| State | 8,559 | 14,862 |
| Local | 18,311 | 15,421 |
| Fines and forfeitures | 44,912 | 46,741 |
| Charges for services | 19,756 | 16,687 |
| Investment earnings | 7,962 | 7,409 |
| Contributions | 17,482 | 18,589 |
| Other | 1,655 | 25 |
| Total revenues | 342,785 | 332,926 |
| Expenditures | | |
| Salaries, wages and payroll taxes | 151,463 | 158,857 |
| Fringe benefits | 13,307 | 13,494 |
| Operating supplies | 5,273 | 4,413 |
| Repairs and maintenance | 8,616 | 9,918 |
| Professional services | 6,645 | 5,866 |
| Fund expenditures | 6,160 | - |
| Insurance | 9,052 | 7,466 |
| Dues and fees | 19,562 | 18,285 |
| Utilities | 9,224 | 8,783 |
| Telephone | 2,524 | 2,025 |
| Other | 9,231 | 7,863 |
| Capital outlay | 3,683 | 2,319 |
| Depreciation | 47,885 | 45,195 |
| Total expenses | 292,625 | 284,484 |
| Change in net assets | 50,160 | 48,442 |
| Net assets at beginning of year | 767,340 | 718,898 |
| Net assets at end of year | \$ 817,500 | \$ 767,340 |

1. Revenues

- Property Taxes: Increased slightly due to an increase in taxable value of governmental units from the previous year.
- Intergovernmental revenues – State: Decreased due to the State of Michigan reducing funding to local libraries.

2. Expenditures

- Salaries, wages and payroll taxes: Decreased due to the prior year staff reductions being effective for a full year.
- Fund expenditures: This is a new expenditure category created to track expense funded by specific contributions.
- Insurance: Increased due to increased fees.

Analysis of Financial Statements

The Library operates three separate funds, each of which serves a different function. The General Fund is the Library's primary operating fund in which all transactions for day to day operations are recorded. The Capital Project Fund is used to account for the accumulation and disbursement of funds for the construction and equipping of the Library facility. The Permanent Fund, Murray Memorial Trust, is utilized to account for the trust assets and related earnings which are restricted for Library book purchases.

The fund balance of the General Fund increased during the current year by \$59,318. This increase is primarily the result of a decrease in salary, wages and payroll taxes as discussed above.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to address unplanned needs and events that occurred during the year. The more significant adjustments are as follows:

Revenues

- Property taxes were adjusted lower due to the capture of property taxes by the Downtown Development Authority (DDA).
- Contribution revenue budget was increased as contributions were received.

Northeast Ottawa District Library

Management's Discussion and Analysis

Expenditures

- Salaries, wages and payroll taxes were reduced due to lower than anticipated staff hiring.
- The fund expenditures budget was increased as this expenditure category was created to track expenditures funded by specific contributions.
- Professional fees budget was reduced due to not completing all anticipated review of library policies.
- Dues and fees budget was reduced to reclass DDA property taxes captured to the property tax line and to adjust for lower than anticipated increase in Lakeland Library Cooperative fees.

The Library had no significant budget to actual variation during the year.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$475,479 invested in the collection, land, buildings, furniture, fixtures and equipment, net of depreciation. The Library added \$32,903 in new collection items consisting of new books and various audio/visual materials. The Library also purchased four new computers and two book display carts.

The Library's long-term debt activity consists of capped accumulated employee compensated absences (vacation time) to be paid to eligible employees upon retirement.

Next Year's Anticipated Budget Factors and Currently Known Facts

The Library's fiscal year 2009 budget shows no changes in fund balance. Property tax revenues are expected to decrease slightly due to a decrease in the City of Coopersville millage revenue. Revenues received from the State of Michigan and penal fines are expected to remain level.

The Library is anticipating the following changes in expenses. Salaries, wages and payroll taxes are anticipated to increase slightly. Dues and fees are expected to increase due to higher delivery fees and other anticipated Lakeland Cooperative fees. Capital outlay expenses are expected to increase due to the anticipated purchase of a microfilm scanner/printer.

Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in them. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Library Director, Christine Boyce at Northeast Ottawa District Library, 333 Ottawa Street, Coopersville, Michigan 49404.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

August 15, 2008

Board of Directors
Northeast Ottawa District Library
Coopersville, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Northeast Ottawa District Library as of and for the year ended June 30, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Northeast Ottawa District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Northeast Ottawa District Library as of June 30, 2008 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison information and Schedule of Funding Progress for MERS Pension Plan on pages i - iv and 13 - 14 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Northeast Ottawa District Library
BALANCE SHEET—STATEMENT OF NET ASSETS
June 30, 2008

| | Balance Sheet - Modified accrual | | | | | Statement of Net Assets - Full accrual |
|--|----------------------------------|---------------------|------------------------------|-------------------|-------------------|--|
| | General | Capital Projects | Permanent Murray Trust | Total | Adjustments | |
| ASSETS | | | | | | |
| Cash and investments | \$ 245,428 | \$ 50,162 | \$ 10,530 | \$ 306,120 | \$ - | \$ 306,120 |
| Accounts receivable | 135 | - | - | 135 | - | 135 |
| Due from other governmental units | 44,912 | - | - | 44,912 | - | 44,912 |
| Due from other funds | - | - | 416 | 416 | (416) | - |
| Prepaid items | 7,649 | - | - | 7,649 | - | 7,649 |
| Capital assets, net | | | | | | |
| Nondepreciable | - | - | - | - | 20,000 | 20,000 |
| Depreciable | - | - | - | - | 455,479 | 455,479 |
| Total assets | <u>\$ 298,124</u> | <u>\$ 50,162</u> | <u>\$ 10,946</u> | <u>\$ 359,232</u> | 475,063 | 834,295 |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 1,908 | \$ - | \$ - | \$ 1,908 | - | 1,908 |
| Accrued liabilities | 5,685 | - | - | 5,685 | - | 5,685 |
| Due to other funds | 416 | - | - | 416 | (416) | - |
| Deferred revenue | 1,000 | - | - | 1,000 | - | 1,000 |
| Compensated absences | - | - | - | - | 8,202 | 8,202 |
| Total liabilities | 9,009 | - | - | 9,009 | 7,786 | 16,795 |
| FUND BALANCES | | | | | | |
| Reserved for: | | | | | | |
| Collection expenditures - nonexpendable | - | - | 10,946 | 10,946 | (10,946) | - |
| Prepaid items | 7,649 | - | - | 7,649 | (7,649) | - |
| Unreserved | | | | | | |
| Designated for feasibility study | - | 5,000 | - | 5,000 | (5,000) | - |
| Designated for state unemployment | 8,147 | - | - | 8,147 | (8,147) | - |
| Undesignated | 273,319 | 45,162 | - | 318,481 | (318,481) | - |
| Total fund balances | <u>289,115</u> | <u>50,162</u> | <u>10,946</u> | <u>350,223</u> | <u>(350,223)</u> | <u>-</u> |
| Total liabilities and fund balances | <u>\$ 298,124</u> | <u>\$ 50,162</u> | <u>\$ 10,946</u> | <u>\$ 359,232</u> | | |
| NET ASSETS | | | | | | |
| Invested in capital assets | | | | | 475,479 | 475,479 |
| Restricted - nonexpendable permanent trust | | | | | 10,946 | 10,946 |
| Unrestricted | | | | | 331,075 | 331,075 |
| Total net assets | | | | | <u>\$ 817,500</u> | <u>\$ 817,500</u> |

The accompanying notes are an integral part of this statement.

Northeast Ottawa District Library
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES—STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

| | Revenues and Expenditures - Modified accrual | | | | Adjustments | Statement of Activities - Full accrual |
|---|--|---------------------|------------------------------|------------|-------------|--|
| | General | Capital Projects | Permanent Murray Trust | Total | | |
| Revenues | | | | | | |
| Property taxes | \$ 223,400 | \$ - | \$ - | \$ 223,400 | \$ - | \$ 223,400 |
| Intergovernmental revenues | | | | | | |
| Federal | 748 | - | - | 748 | - | 748 |
| State | 8,559 | - | - | 8,559 | - | 8,559 |
| Local | 18,311 | - | - | 18,311 | - | 18,311 |
| Fines and forfeitures | 44,912 | - | - | 44,912 | - | 44,912 |
| Charges for services | 19,756 | - | - | 19,756 | - | 19,756 |
| Investment earnings | 5,191 | 2,348 | 423 | 7,962 | - | 7,962 |
| Contributions | 13,842 | - | 500 | 14,342 | 3,140 | 17,482 |
| Other | 1,655 | - | - | 1,655 | - | 1,655 |
| Total revenues | 336,374 | 2,348 | 923 | 339,645 | 3,140 | 342,785 |
| Expenditures | | | | | | |
| Current | | | | | | |
| Salaries and wages | 148,541 | - | - | 148,541 | 2,922 | 151,463 |
| Fringe benefits | 13,307 | - | - | 13,307 | - | 13,307 |
| Operating supplies | 5,273 | - | - | 5,273 | - | 5,273 |
| Repairs and maintenance | 8,616 | - | - | 8,616 | - | 8,616 |
| Professional services | 6,645 | - | - | 6,645 | - | 6,645 |
| Fund expenditures | 6,160 | - | - | 6,160 | - | 6,160 |
| Insurance | 9,052 | - | - | 9,052 | - | 9,052 |
| Dues and fees | 19,562 | - | - | 19,562 | - | 19,562 |
| Utilities | 9,224 | - | - | 9,224 | - | 9,224 |
| Telephone | 2,524 | - | - | 2,524 | - | 2,524 |
| Other | 9,231 | - | - | 9,231 | - | 9,231 |
| Capital outlay | 38,921 | 400 | - | 39,321 | (35,638) | 3,683 |
| Depreciation | - | - | - | - | 47,885 | 47,885 |
| Total expenditures | 277,056 | 400 | - | 277,456 | 15,169 | 292,625 |
| Change in fund balances—net assets | 59,318 | 1,948 | 923 | 62,189 | (12,029) | 50,160 |
| Fund balances—net assets at July 1, 2007 | 229,797 | 48,214 | 10,023 | 288,034 | 479,306 | 767,340 |
| Fund balances—net assets at June 30, 2008 | \$ 289,115 | \$ 50,162 | \$ 10,946 | \$ 350,223 | \$ 467,277 | \$ 817,500 |

The accompanying notes are an integral part of this statement.

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Northeast Ottawa District Library (Library) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

Reporting Entity

The Library was established in June 1976 as a district library through an agreement between the City of Coopersville and Polkton Charter Township pursuant to the District Library Establishment Act of the State of Michigan. In 1994, the library district was expanded to include Chester Township and Wright Township. The Library is governed by an eight member Library Board. Each governmental unit appoints two members. The Library is administered by a director appointed by the Board. The Library is primarily funded through a tax levy on property within the Library district, fines, fees and state aid.

Generally accepted accounting principles require that if the Library has certain oversight responsibilities over other organizations, those organizations should be included in the Library's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All three of the Library's funds are considered to be major funds.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so they have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

The Library reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for financial resources of the Library which are not required to be reported in another fund.

The *Capital Projects Fund* is utilized to account for the accumulation and disbursement of funds for the construction and equipping of the Library facility.

The *Permanent Trust Fund - Murray Memorial Trust fund* is utilized to account for the trust assets and related earnings which are restricted for Library book purchases.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources.

Assets, Liabilities and Fund Equity or Net Assets

Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Library reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed and the Library intends to hold the investment until maturity.

The Library has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Library to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

All property tax receivables are shown net of an allowance for uncollectibles.

Property taxes are levied on December 1 and are due without penalty on or before February 15. The property taxes attach as an enforceable lien on property as of December 1. Property taxes are collected and forwarded to the Library by the participating municipalities. Uncollected real property taxes as of the following March 1 are turned over by the participating municipalities to the County for collection. The County advances the Library all of these delinquent real property taxes. Collection of delinquent personal property taxes as of March 1 remains the responsibility of the Library. These amounts are recognized in the General Fund.

The Library recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 day). The 2007 state taxable valuation for real/personal property of the Library was approximately \$386,700,000. The ad valorem taxes levied consisted of .5881 mills for operating purposes.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include library books, periodicals, equipment, etc. are defined by the Library as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years with exception of library books, periodicals, etc. which are all recorded as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property and equipment of the Library is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Library books, periodicals, etc. | 5 |
| Building and improvements | 50 |
| Furniture, fixtures and equipment | 5 - 30 |

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Compensated Absences

The Library's employees are granted vacation and sick leave in varying amounts based upon length of service and position. Unused sick pay leave may accumulate and be carried over to a subsequent year, subject to restrictions. No portion of unused sick leave is paid to employees at the time of termination or retirement. It is the Library's policy to recognize the cost of sick leave at the time payments are made. Vacation pay accrued at year-end which is subject to payment upon termination has been included as a liability on the statement of net assets and not on the balance sheet as the balance is not expected to be liquidated with expendable available financial resources.

Fund Equity

Reservations and restrictions represent amounts that are not appropriable or are legally segregated for a specific purpose.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds and capital projects funds. The permanent fund is not required to adopt a budget. All annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the beginning of the fiscal year, the Finance Committee submits to the Library Board a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Not later than June 30, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Library Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund and individual revenue and expenditure line item. The legal level of budgetary control is the individual line item. The Library Board made supplemental budgetary appropriations during the year.

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issues by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Library does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. The Library does not have a custodial credit risk policy for deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of June 30, 2008, \$100,715 of the Library's bank balance of \$306,955 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Library does not have a custodial credit risk policy for investments. In an investment, this is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Library is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

| | Balance July 1, 2007 | Additions | Deductions | Balance June 30, 2008 |
|---|----------------------------|-----------|------------|-----------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 20,000 | \$ - | \$ - | \$ 20,000 |
| Capital assets, being depreciated: | | | | |
| Library books, periodicals, etc. | 354,680 | 32,903 | 37,891 | 349,692 |
| Building and improvements | 435,352 | - | - | 435,352 |
| Furniture, fixtures and equipment | 152,256 | 5,875 | 2,392 | 155,739 |
| Total capital assets, being depreciated | 942,288 | 38,778 | 40,283 | 940,783 |

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—CAPITAL ASSETS—Continued

| | Balance July 1, 2007 | Additions | Deductions | Balance June 30, 2008 |
|---|----------------------------|-------------------|---------------|-----------------------------|
| Governmental activities:—Continued | | | | |
| Less accumulated depreciation: | | | | |
| Library books, periodicals, etc. | \$ 280,201 | \$ 28,432 | \$ 37,891 | \$ 270,742 |
| Building and improvements | 108,838 | 8,707 | - | 117,545 |
| Furniture, fixtures and equipment | 88,663 | 10,746 | 2,392 | 97,017 |
| Total accumulated depreciation | <u>477,702</u> | <u>47,885</u> | <u>40,283</u> | <u>485,304</u> |
| Total capital assets, being depreciated, net | <u>464,586</u> | <u>(9,107)</u> | <u>-</u> | <u>455,479</u> |
| Capital assets, net | <u>\$ 484,586</u> | <u>\$ (9,107)</u> | <u>\$ -</u> | <u>\$ 475,479</u> |

NOTE E—INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2008, the General Fund owes the Murray Trust Fund \$416 for capital donations and investment earnings received by the General Fund.

NOTE F—OTHER INFORMATION

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Library carries commercial insurance. Liabilities in excess of insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the prior three years.

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The Library is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Library. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Northeast Ottawa District Library
333 Ottawa Street
Coopersville, MI 49404

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Pension Plan—Continued

Funding Policy. Library employees are required to contribute 4.41 to 6.31 percent of their annual covered payroll to the plan depending on employee position. The Library is required to contribute at an actuarially-determined rate; the current rate varies from 3.12 to 7.59 percent of annual covered payroll depending upon position. The contribution requirements of plan members and the Library are established by MERS.

Annual Pension Cost. For the year ended June 30, 2008, the Library's annual pension cost was approximately \$5,600 which the Library contributed. The employees contributed approximately \$6,400.

Three-Year Trend Information

| Year ended | Approximate Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|------------|---|-------------------------------------|---------------------------|
| 6/30/06 | \$ 16,900 | 100 % | \$ - |
| 6/30/07 | 10,350 | 100 | - |
| 6/30/08 | 5,600 | 100 | - |

The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 2005 included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007 was 28 years which will be reduced by one year in each of the next three valuations until reaching 25 years after which the 25 year period will be reestablished with each annual actuarial valuation.

Funded Status and Funding Progress. As of December 31, 2007, the most recent actuarial valuation date, the plan was 75 percent funded. The actuarial accrued liability for benefits was approximately \$254,300, and the actuarial value of assets was approximately \$191,900, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$62,400. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$125,900, and the ratio of the UAAL to the covered payroll was 50 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance – governmental funds \$ 350,223

Amounts reported for government activities in the
Statement of Net Assets is different because:

Capital assets used in governmental activities are
not current financial resources and are not reported
in the governmental funds.

| | | |
|--------------------------|------------------|---------|
| Cost of capital assets | \$ 960,783 | |
| Accumulated depreciation | <u>(485,304)</u> | 475,479 |

Compensated absences in governmental activities are
not due and payable in the current period and are not
reported in the governmental funds.

(8,202)

Net assets of governmental activities in the
Statement of Net Assets

\$ 817,500

Net change in fund balances – total governmental funds \$ 62,189

Amounts reported for government activities in the
Statement of Activities are different because:

Contribution of capital assets are recorded as revenues in the
Statement of Activities, but not in the governmental funds.

3,140

Governmental funds report outlays for capital assets as
expenditures; in the Statement of Activities, these costs
are depreciated over their estimated useful lives.

| | | |
|----------------------|---------------|----------|
| Depreciation expense | \$ (47,885) | |
| Capital outlay | <u>35,638</u> | (12,247) |

Compensated absences are reported on the accrual method in
the Statement of Activities and reported as expenditures
when financial resources are used in the governmental funds.

(2,922)

Change in net assets in governmental activities

\$ 50,160

REQUIRED SUPPLEMENTARY INFORMATION

Northeast Ottawa District Library
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2008

| | Original budget | Final budget | Actual | Variance with final budget positive (negative) |
|-----------------------------------|--------------------|-----------------|------------|---|
| Revenues | | | | |
| Property taxes | \$ 235,524 | \$ 223,350 | \$ 223,400 | \$ 50 |
| Intergovernmental revenues | | | | |
| Federal | 700 | 840 | 748 | (92) |
| State | 7,430 | 8,517 | 8,559 | 42 |
| Local | 14,000 | 18,311 | 18,311 | - |
| Fines and forfeitures | 35,538 | 41,500 | 44,912 | 3,412 |
| Charges for services | 13,735 | 20,470 | 19,756 | (714) |
| Investment earnings | 4,200 | 5,230 | 5,191 | (39) |
| Contributions | 4,688 | 10,238 | 13,842 | 3,604 |
| Other | - | 1,700 | 1,655 | (45) |
| Total revenues | 315,815 | 330,156 | 336,374 | 6,218 |
| Expenditures | | | | |
| Current | | | | |
| Salaries, wages and payroll taxes | 160,500 | 152,500 | 148,541 | 3,959 |
| Fringe benefits | 12,100 | 13,700 | 13,307 | 393 |
| Operating supplies | 5,278 | 5,600 | 5,273 | 327 |
| Repairs and maintenance | 11,000 | 9,430 | 8,616 | 814 |
| Professional services | 14,300 | 7,350 | 6,645 | 705 |
| Fund expenditures | - | 7,525 | 6,160 | 1,365 |
| Insurance | 9,000 | 8,500 | 9,052 | (552) |
| Dues and fees | 38,300 | 19,675 | 19,562 | 113 |
| Utilities | 10,000 | 9,000 | 9,224 | (224) |
| Telephone | 2,500 | 2,500 | 2,524 | (24) |
| Other | 11,839 | 9,655 | 9,231 | 424 |
| Capital outlay | 36,450 | 37,260 | 38,921 | (1,661) |
| Total expenditures | 311,267 | 282,695 | 277,056 | 5,639 |
| Net change in fund balance | \$ 4,548 | \$ 47,461 | 59,318 | \$ 11,857 |
| Fund balance at July 1, 2007 | | | 229,797 | |
| Fund balance at June 30, 2008 | | | \$ 289,115 | |

Northeast Ottawa District Library
Required Supplemental Information
SCHEDULE OF FUNDING PROGRESS FOR MERS PENSION PLAN
For the year ended June 30, 2008

| <u>Actuarial valuation date</u> | <u>Actuarial value of assets</u> | <u>Actuarial Accrued Liability (AAL) Entry Age</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded ratio</u> | <u>Covered payroll</u> | <u>UAAL as a percentage of covered payroll</u> |
|---|--|--|------------------------------------|-------------------------|----------------------------|--|
| 12/31/05 | \$ 157,453 | \$ 210,360 | \$ 52,907 | 75 % | \$ 144,983 | 36 % |
| 12/31/06 | 177,729 | 236,254 | 58,525 | 75 | 105,297 | 56 |
| 12/31/07 | 191,904 | 254,288 | 62,384 | 75 | 125,898 | 50 |

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

August 15, 2008

Board of Directors
Northeast Ottawa District Library
Coopersville, Michigan

In planning and performing our audit of the financial statements of Northeast Ottawa District Library as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Northeast Ottawa District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of the Board, management, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCIES

General

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Library should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

Recommendation 2: The internal control procedures should be further segregated.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining an accounting system with strong internal accounting controls including significant segregation of duties.

The Library should seek opportunities to further segregate duties and strengthen internal controls. Often, the most effective approach is the expansion of documented approval of transactions by the Board of Directors and the assignment of a Board member to open and scan monthly bank statements.

Recommendation 3: All internal control procedures performed should be documented.

During our testing, we noted a number of internal control procedures that did not have any supporting documentation to indicate that they had been completed.

The documentation of the completion of control activities would help ensure that they are completed and not inadvertently omitted.

Recommendation 4: All collection additions should be entered into the Lakeland system at cost.

During our testing, we noted that the collection is maintained on the Lakeland system at book cover price rather than at the Library's actual cost.

The Library should enter all books at cost. The entering of books at cost provides the Library with an accurate record of the historic cost of capital assets as required by generally accepted accounting standards.